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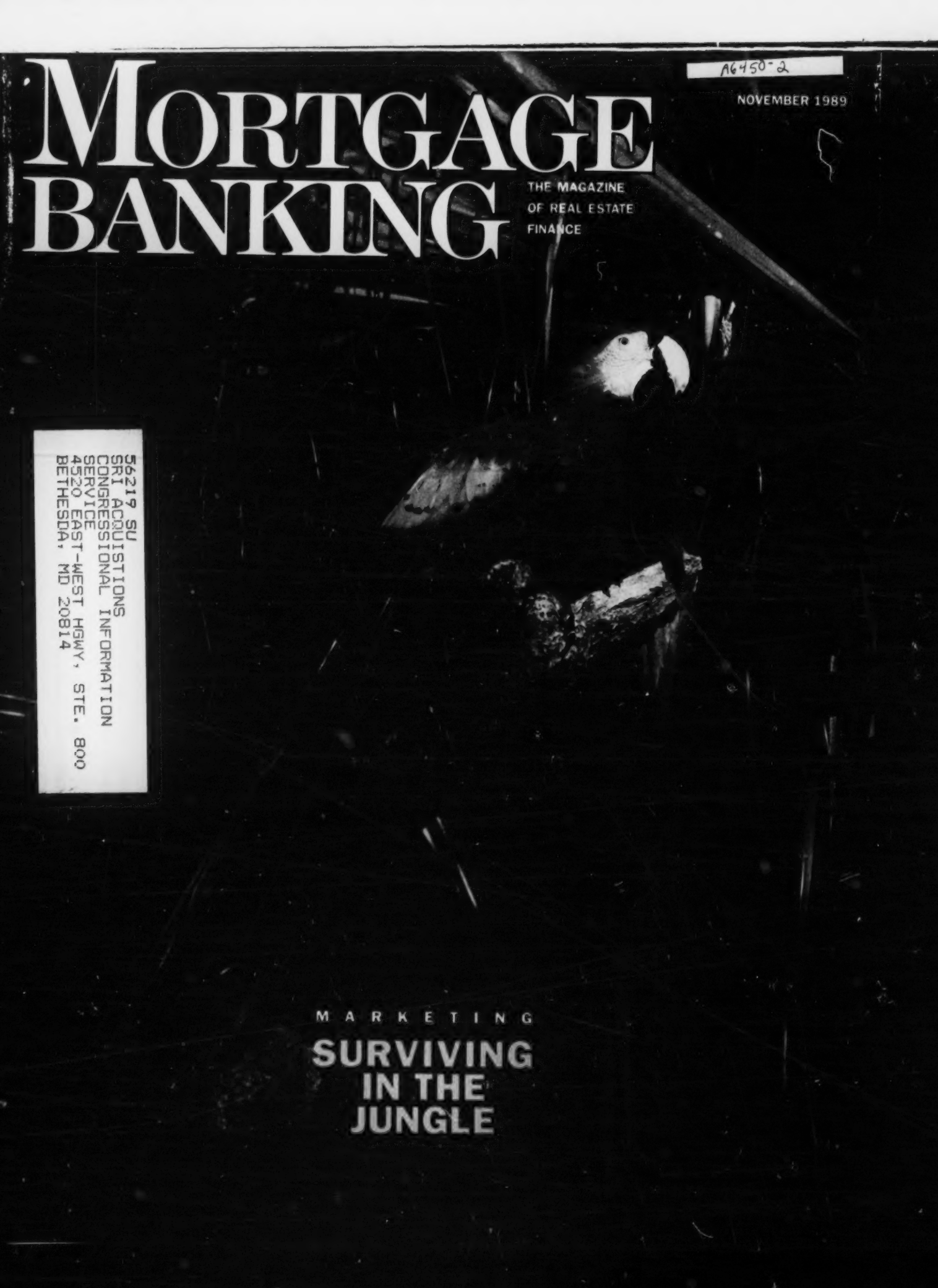
MORTGAGE BANKING

NOVEMBER 1989

THE MAGAZINE
OF REAL ESTATE
FINANCE



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MARKETING

SURVIVING IN THE JUNGLE

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NOVEMBER 1989 VOLUME 50 NUMBER 2

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It's a jungle out there. And survival will go only to the fittest. To be fit to compete in today's wild markets you need to set yourself apart—stand out. Plant your name in the customer's mind. Promote your shop, your products and your service to help your loan officers get out of this competitive jungle alive.

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COVER PHOTO BY GIPARO/THE IMAGE BANK

Jungle Survival

Competing on price is quicksand. Competing on name is for Sears. Competing on the backs of star loan officers is very, very expensive. So, what's the average mortgage banker to do to survive in the steamy hot heart of today's competitive jungle?

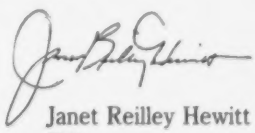
Well, maybe, advertise? Some sophisticated marketing techniques might be in order.

Or, how about convincing your loan officers to sell not on price, but on the flexibility of the shelfload of products you already have? Why should your shop get beat out by thrift loan officers who are essentially trying to market one product—a negatively amortizing, monthly adjusting COFI ARM? If your sales staff insists on competing on the basis of start rates, there's little hope for fixed-rate products beating out ARMs or for secondary market–eligible ARMs beating out teaser ARMs. Train your staff not to go down that path.

Other jungle survival tips in this issue include a warning to avoid slavery to market share in regions dominated by thrifts practicing institutional cannibalism in the form of teaser-rate ARMs. A fixation on defending market share at all costs in such markets amounts to taking a poison dart in the heart of the balance sheet.

This issue also carries a report from Peat Marwick on how some of the very largest servicers did last year on the servicing cost front. In 1988, these servicers saw total servicing costs per loan climb 16 percent compared with 1987. Thirty-four percent of those costs were tied to bad loan losses. Core servicing costs—excluding bad loan losses—actually dropped slightly.

We hope these survival tips are more than simply informative, because as we all know, mortgage bankers want to succeed, not just survive.



Janet Reilley Hewitt
Editor

COMING IN DECEMBER

Byting the Bullet

Some mortgage firms are actually embracing the computer age. Countrywide and Margaretten are the two we choose to profile. Also, IBM's got its eye on the mortgage market.

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 50 NUMBER 2

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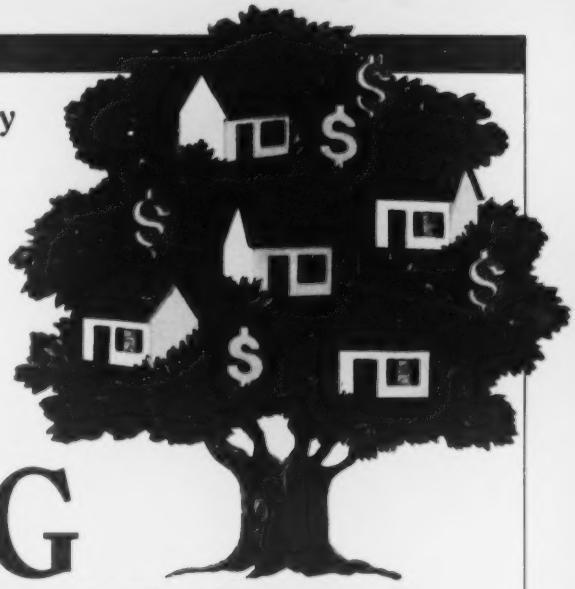
Customer relationships opened up by mortgage lending sow the seeds for future business profits.



GROWING A PROFIT TREE

Throughout this decade, mortgage lending institutions, including the largest in the industry, lost money on loan origination.

But until now, few have been troubled by these losses. The institutions looked to servicing to generate enough profits to recoup the shortfall.

What has changed? It's the growing recognition that servicing will not generate the profits the industry seeks in the 1990s. In fact, according to Towers Perrin studies, the profit spread on mortgage servicing will steadily decline in the next decade, even for "mega-size" institutions (see Chart 1).

Mortgage lenders are already seeing industry profits and profit margins shrink. Many are now re-evaluating their commitment to the residential mortgage banking business. Indeed, news of major financial institutions exiting the business in the future should not come as a surprise.

But leaving is not the solution. Rather, for most institutions, the answer lies in redefining and repositioning the residential mortgage business.

Powerful market forces are restructuring the residential mortgage industry and, in so doing, are changing the requirements for success. In the emerging structure, consumer home mortgages will no longer be a viable stand-alone source of origination, servicing or secondary marketing profits.

Rather, mortgages will be originated as "gateway" products to broad-based financial services retailing. From the residential mortgage relationship base—or the "trunk" of the mortgage profit tree—will branch the sale of other retail products and services. Simply put, banks hoping to maximize profits from residential mortgages must begin concentrating on the total customer relationship, rather than focusing narrowly on a specific mortgage product business.

The key is to view financial services retailing from a long-term relationship perspective, rather than a single-product sale orientation. From this vantage point, a successful relationship looks much like the classic decision tree, with products such as mortgages (and checking accounts and insurance) serving as gateway or "root" products—the source of first-time customer contacts. These contacts can and should be developed into long-term, profitable multiservice/product relationships. Such relationships give retailers a valuable asset: an easily accessible, qualified market for all of their products and services.

Chart 2 shows how the residential mortgage profit tree can grow over time with diverse sales to home mortgage borrowers. As illustrated, a large number of financial services and products can be natural follow-ons to the residential mortgage.

The key is to view financial services retailing from a long-term relationship perspective, rather than a single-product sale orientation.

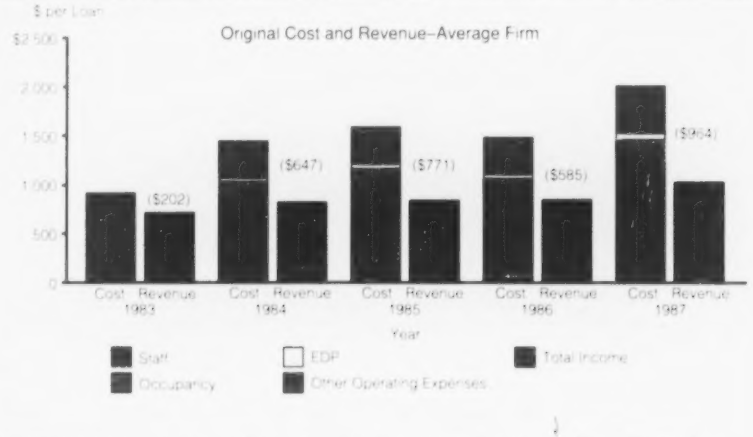
But the expanded mortgage relationship will not develop by itself. It must be nurtured by properly trained and motivated employees who understand both the needs of customers and the probable timetable for those needs. In other words, the relationship must be actively managed to reap the greatest profits. What does this involve?

David Partridge and Elizabeth Gall

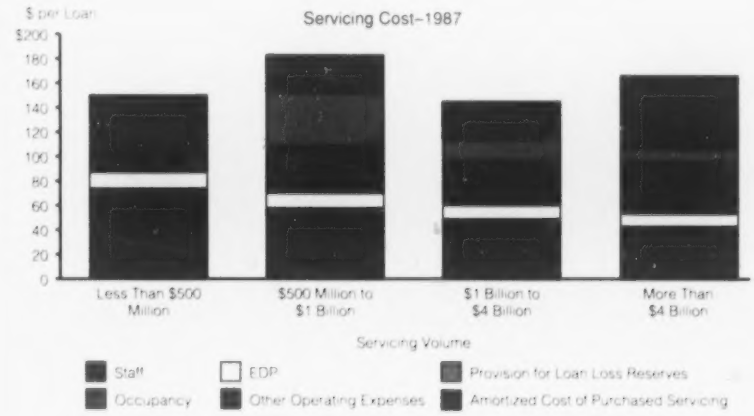
ILLUSTRATION BY JEANNE TURNER

CHART 1 Mortgage Industry Performance

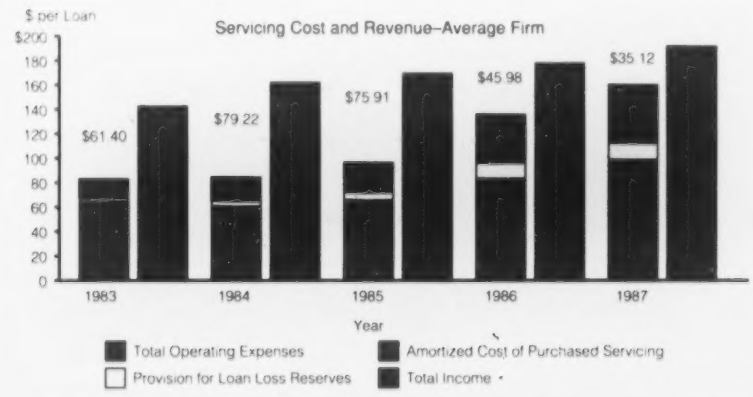
Increasing losses are evident in loan origination.



Operational economies in servicing appear to increase to a point and then diminish, overcome at higher volume by the amortized cost of purchased servicing.



Costs, especially for amortization of purchased servicing, have outpaced servicing revenue, squeezing net servicing income.



To grow the mortgage profit tree, lending institutions need to:

- Define the true potential value of retail customer relationships and the role of different products in this value stream.
- Devise marketing strategies that reflect the timing of consumer needs for differing products and services (e.g., at different stages in customers' lives; at different times of the year; or at different points in the mortgage relationship life cycle).
- Restructure origination and servicing departments to execute the new strategies.
- Develop performance management and reward systems that reinforce the chosen strategies.
- Find ways to increase mortgage origination productivity.

Value of the consumer relationship

There is no question that creating and sustaining these long-term relationships require time and effort by the retailer. Will it pay off? To answer that, the institution must value not only the initial mortgage sale but the entire profit tree. In other words, the profits from the offshoot sales must be factored in when assessing the value of these relationships. As management will discover, the tree has the potential to be extremely profitable.

As shown in Chart 3, a carefully orchestrated "relationship-selling" program can dramatically alter the economics of mortgage banking. Break-even time (recovering the losses incurred at origination) can be cut in half. The cumulative value of the relationship can be increased five times in only four years.

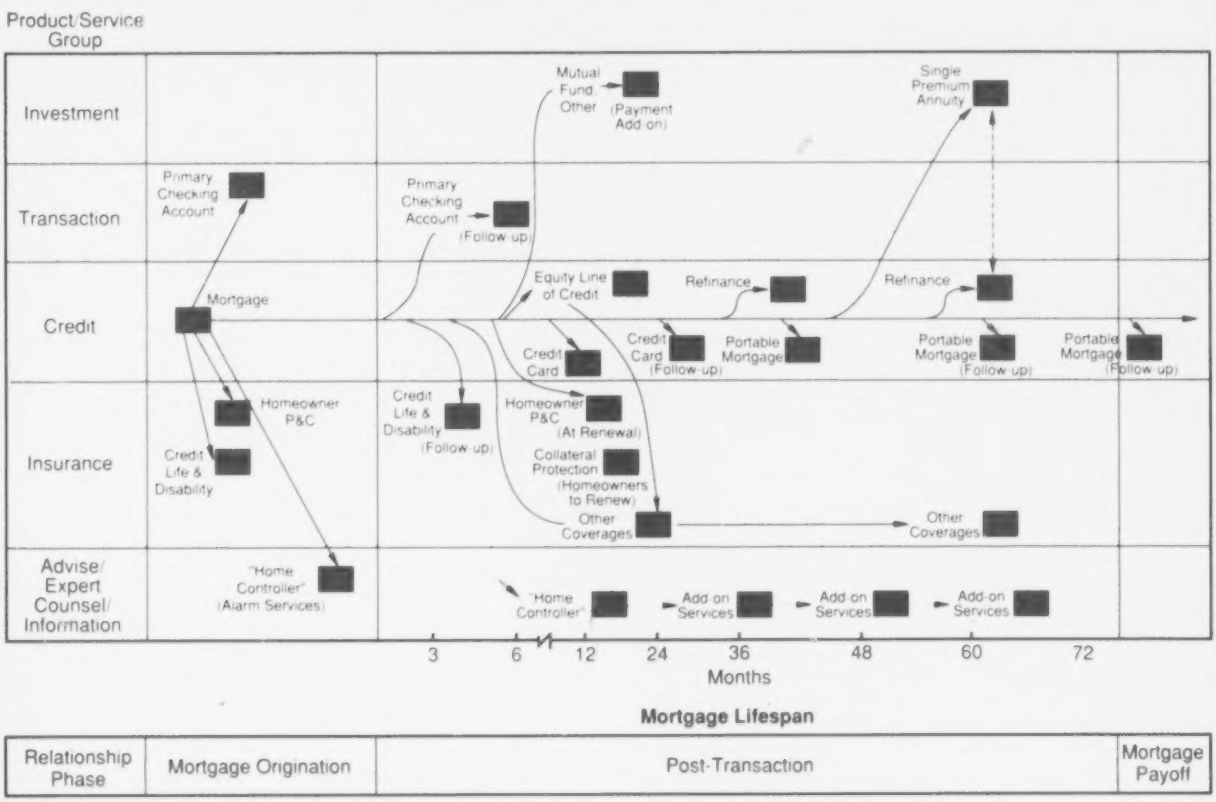
This valuable relationship will not happen by itself. Significant changes to organizational structure, staffing, compensation practices and marketing are required to realize the profit potential of the initial mortgage transaction.

Managing the relationship

Historically, mortgage retailers have not been successful in selling other products and services to their customers. Several factors help explain this:

- Lenders do not always understand the true economic potential of the expanded customer relationship

CHART 2 Natural Follow-ons to the Residential Mortgage



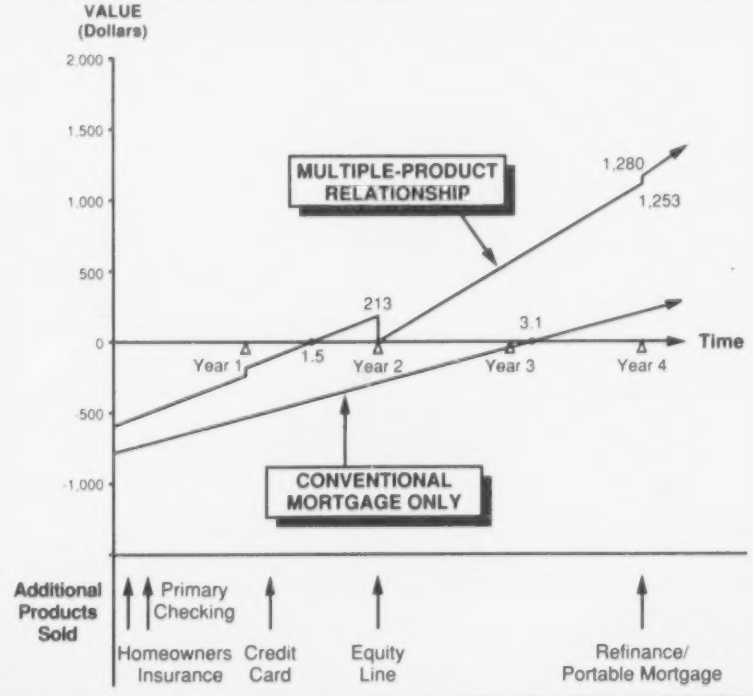
A customer relationship that begins with a mortgage has tremendous potential for further development.

and, therefore, are unwilling to make it a management priority.

- Current commission systems typically are based on one-time sales/originations that do not encourage relationship-building.
- Organizational structures, performance management systems and compensation practices in mortgage banking often create artificial barriers to cross-selling.
- Cross-selling programs often overlook the importance of timing in the sales process. Yet, there are clearly appropriate times in which to sell certain products and services (see Chart 2). Effective cross-selling must take this life cycle or "rhythm" into account.

Clearly, we believe that financial institutions need to rethink their marketing approach and the support systems and structures that reinforce their marketing strategies. First, and perhaps foremost, management needs to define and foster a new customer service ethic. This change could involve, for example, developing systems to speed mortgage processing

CHART 3 A Relationship-Selling Program



Astute competitors will try to create multiple-product relationships that are significantly more profitable than mortgage-only relationships.

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and closing. Rethinking the institution's marketing approach would also require rewarding mortgage originators for other products and services sold. In this context, incentives for originators might be based, at least in part, on the long-term value of the relationship. In addition, mortgage servicers' new cross-selling responsibilities would have to be recognized in incentive payouts.

Maximizing origination potential

As noted earlier, mortgage banking, as a business, is losing much of its economic attractiveness. Although loan origination will remain strong in the 1990s, it will not grow. Residential mortgage volume, which peaked at $454 billion in 1986, should remain in the $250-$350 billion range through the decade and then decline slightly (excluding inflationary effects on dollar volume). Thus, institutions that wish to make residential mortgages the root of their retail business strategy will have to expand market share in a static market. And as every marketer knows, such expansion is quite a difficult job.

Retailers who rely on offering a product mix carrying attractive rates and fees and who are geared at originating a good fixed/variable-rate balance, but who fail to support this mix with creative sales approaches, will fail to generate a satisfactory number of low-cost, sound mortgage originations.

To survive in the 1990s' competitive environment, lenders must look beyond the traditional source of mortgage referrals—real estate brokers—and find new ways of reaching customers. Possibilities to consider include:

- In-branch home buyer service centers
- Integrated home buyer/seller service packages
- Technology-based correspondent banking relationships
- Telemarketing to current customers
- Portable or "branded" mortgages

Such efforts, implemented cost effectively, should pay off handsomely—giving lenders an edge in a business that is a true gateway for harvesting profits from many branches of the residential mortgage profit tree. **MB**

David Partridge is a principal with Towers Perrin. Elizabeth Gall is a vice president of the same firm.

Positioning Your Servicing Operation for the 1990s

Very large servicers saw total servicing costs per loan climb 16 percent last year versus 1987. Bad loan losses deserve much of the credit.

Linda C. Simmons

Having survived the massive prepayments, refinancings and record loan volumes of 1986 and 1987, what challenges did the largest servicers withstand in 1988?

And what are these same servicers doing to position themselves for the mortgage servicing environment of the 1990s?

In June 1989, KPMG Peat Marwick completed its third annual Mortgage Servicing Performance Study (MSPS). Participants serviced an average of 100,000 loans or more in 1988. Questionnaire responses were examined and validated to ensure integrity and consistency. The information was then analyzed to develop (1) the cost of each functional area within servicing; and (2) the cost of the nonservicing attributes, such as interest expense and overhead allocation.

Representing industry leaders across the country, the participants gathered and submitted critical unit cost, productivity and operating data. Information was accumulated for 18 servicing functions and on key portfolio and compensation statistics.

Using Peat Marwick as data conduit, validator, analyst and facilitator, senior executives of participating firms met in June to review results and to profile enhancements to their operational efficiency and effectiveness. The study participants showed that they were able to use the results of the 1987 servicing performance study to improve their operations in 1988.

Overall cost results

Participants' core servicing costs ranged from $62 to $96 per loan, with an average of $84 per loan. The 1988 average core cost decreased slightly. The costs tied to each functional area within servicing comprise core costs. Core costs exclude collateral losses from bad loans, interest expense and allocated overhead. The distribution of core costs is depicted in Chart 1.

The total servicing cost per loan increased 16 percent compared with 1987 results. The increase was primarily due to a rise in bad loan losses. Total costs ranged from $100 to $260 per loan in 1988, with an average of $149. Thirty-four percent of total servicing costs—a category that included principal losses from loans sold with recourse, VA no-bids and non-reimbursable outside service expenses—was attributable to bad loans. Costs tied to bad loan losses were much higher than in 1987, when they made up 20 percent of servicing costs. (The relative distribution of total servicing costs is contained in Chart 2.)

Significant patterns

The bulk of the study's analytical focus centers on the 18 servicing functional areas. Some general and specific characteristics and patterns have been supported from the results gathered during the three years the study has been done:

- Overall, the study showed that the 1988 average core servicing costs decreased just slightly more than 1987's costs. Three participants were able to cut core costs from between 7 and 27 percent during the last year, while several experienced servicing core cost increases from between 7 and 12 percent. Two participants have been able to decrease costs each year of the study.
- For the third year in a row, there was no evidence that there are incremental economies of scale for the large servicers in the participant group. For this reason, a second study, directed at those who service between 30,000 and 80,000 loans, has been added for 1989.
- Once again, loans serviced per full-time equivalent (FTE) proved to be a general predictor of core servicing costs. For study participants, loans serviced per FTE ranged from 525 to 850. Several participants were able to improve considerably in this area compared with 1987 performance levels.
- There continued to be no apparent improvement in overall servicing costs or productivity from increased data-processing expenditures. Con-

sequently, data-processing costs require strict control and thoughtful justification. The exception to this was in investor services and cashiering where automation projects such as automated pool reporting, automated clearinghouse (ACH) products and computer-generated wire transfers helped increase productivity from 1987 levels.

- The number of loans serviced has remained relatively constant for most of the participant servicers. The group employed a wide variety of bulk purchase/origination combinations to maintain the number of loans serviced, with no apparent effect on core costs.

Dominant issues in 1988

The 1988 study produced some results that warrant highlighting:

- Collection, foreclosure, bankruptcy and REO costs ranged from $33 to $187 per loan, including bad loan losses, which accounted for 69 percent of the total servicing cost. Average losses from bad loans increased 75 percent compared with 1987 results.
- Fifty percent of the participants reported lower costs per loan for customer service during 1988, primarily because of streamlined operations and increased use of automation. Cross-training employees between various customer service functions appears to be a vital step in both increasing productivity and reducing the overall servicing cost.
- The purchased servicing amounts as a percentage of total principal balances in the servicing portfolios were surprisingly high for several participants. Particularly, this is so, when considering that these institutions also originate loans to obtain servicing rights. The future amortization expenses of purchased servicing could be as high as the core servicing costs per loan.
- A number of participants began or completed the consolidation of their servicing operations during the year. The cost benefits of these consolidations are expected in the coming year.
- Investor accounting costs can be dramatically affected by bank fees for custodial accounts. Most participants do not have adequate data to assess the cost of bank fees relative to the value of compensating balances.

Fifty percent of the participants reported lower costs per loan for customer service during 1988, primarily because of streamlined operations and increased use of automation.

CHART 1 Total Cost Distribution

The collections and foreclosures and customer services department accounted for 44% of total servicing cost per loan, while loan losses contributed an additional 34% to the cost equation.

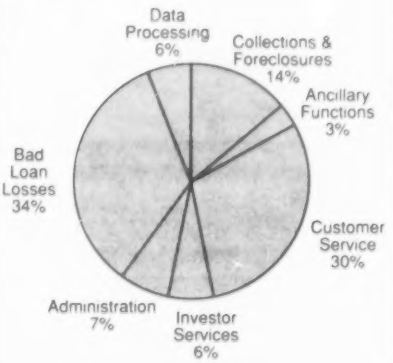
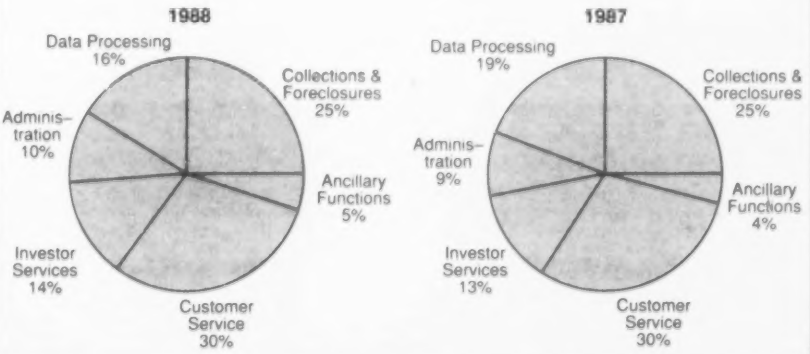


CHART 2 Core Cost Distribution

The core costs were largely influenced by the customer service and collections and foreclosures departments. Data processing was the only department that changed much between 1987 and 1988.



Emerging issues for the 1990s

One of the critical issues for any peer analysis is ensuring the compilation and analysis of comparable data. The 1988 study received a high participant vote of confidence that the data were indeed "normalized" and comparable. Hence, the study, with its established methods for determining costs, can now be used to explore how emerging issues in the mortgage banking industry will affect the cost of servicing.

To try to better understand how to maximize the value of the servicing function, the 1989 study will address the following specific issues:

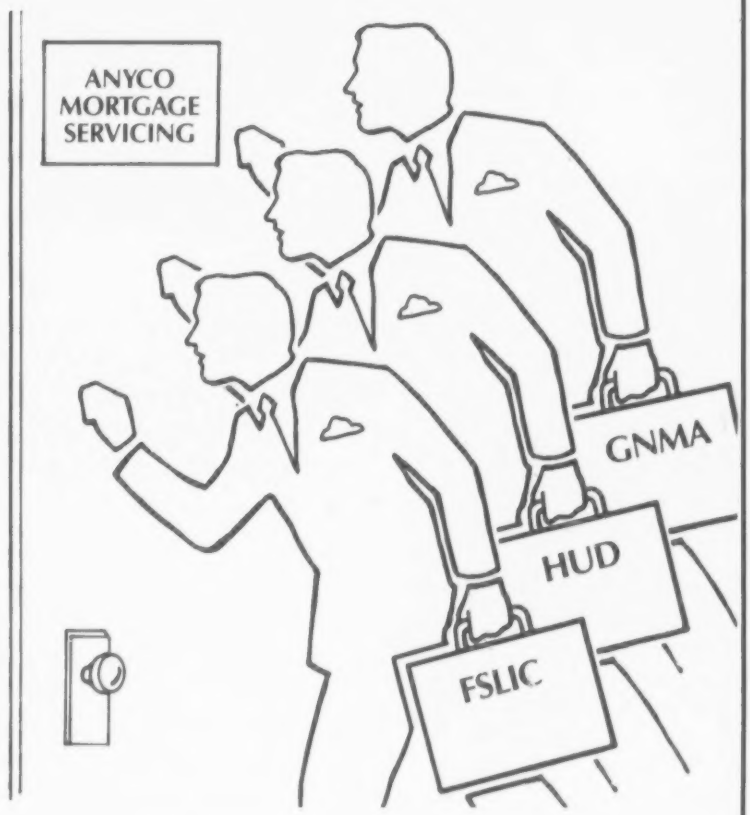
- *Analyzing economies of scale for those servicing between 30,000 and 80,000 loans.* Results from the past three years support the theory that economies of scale still exist for the servicing function; however, the mythical cutoff point for realizing those economies has not been fully analyzed. We have introduced a second study, aimed at analyzing origination and servicing costs for those entities servicing between 30,000 and 80,000 loans, to address this and other theories regarding the servicing function.
- *Managing servicing portfolio risk.* Based on a variety of factors that are collected and analyzed in the study, we expect more detailed analyses of prepayment risk assessment and foreclosure risk assessment. Specifically, we will statistically examine

the geographical, fixed-versus-ARM and interest rate mix of participant portfolios to see if "prepayment prediction" factors can be determined. We will perform similar analyses on those factors inherent in assessing foreclosure risk.

- *Minimizing costs attributed to bad loans.* As highlighted above, collections, foreclosure department and bad loan losses together cost from $33 to $187 per loan. Effective quality control and processing to reduce these costs may be the critical factor in long-term profitability and survival. We will gather information on such quality-control practices in use and develop a cost comparison for the different approaches.
- *Assessing the impact of servicing transfers.* Results of the 1988 study were inconclusive as to the effect on costs and productivity of bulk purchases and sales. We will tailor the next questionnaire to highlight possible incremental costs attributable to servicing transfers: analysis, underwriting, systems setup and so forth.
- *Identifying variations in investor accounting costs.* Additional analyses will be performed on the variations in fees for custodial account and other attributes of investor accounting. A cost comparison for different approaches will be performed.
- *Assessing regulatory trends with respect to purchased and excess servicing.* Regulatory trends should be answered by planned response, not hasty reactions. We will perform analyses of current and anticipated regulatory trends on the participant servicing portfolios in an attempt to further the understanding of how to maximize the value of the servicing.

To date, the Mortgage Servicing Performance Study participants have used the results of these analyses for ongoing management review and updating of servicing operations and performance. In the future, participants will be able to use these analyses to position themselves strategically for the mortgage servicing environment of the 1990s. **MB**

Linda C. Simmons is a principal in KPMG Peat Marwick's Washington, D.C., office. Dr. Simmons is an active participant in the firm's National Mortgage Banking Practice. The 1989 MSPS will be conducted by the Washington, D.C., office.



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VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
			CONVENTIONAL[2]					
1989	FHA New Homes[1]	FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
JUN	10.32%	11.03%	10.03%	8.01%	8.73%	9.98%	9.03%	10.20%
JUL	9.85	10.66	9.84	8.07	8.24	9.72	8.74	9.88
AUG	9.78	10.33	9.57	NA	9.95	8.40	8.65	9.99
SEP	**NA**	**NA**	**NA**	**NA**	**8.54**	**10.06**	**8.71**	**10.13**

SELECTED SECURITIES

			U.S. GOVERNMENT				
1989	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
JUN	9.53%	9.11%	7.93%	8.44%	8.37%	8.28%	9.65%
JUL	9.24	8.68	7.61	7.89	7.83	8.02	9.54
AUG	8.99	8.57	7.74	8.18	8.13	8.11	9.55
SEP	**9.02**	**8.70**	**7.74**	**8.22**	**8.26**	**8.19**	**9.55**

CURRENT SECONDARY MARKET YIELDS

SPREADS
(Basis Points)

1989	GNMA[3]	FNMA[3]	FHLMC[3]	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
JUN	9.72%	9.76%	9.74%	144	148	146
JUL	9.44	9.47	9.48	142	145	146
AUG	9.49	9.53	9.53	138	142	142
SEP	**9.52**	**9.54**	**9.53**	**133**	**135**	**134**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1989	Commitments	Purchases	Outstanding	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	PCs Issued	Applications	Issued
MAY	$1,626	$1,419	$193,681	$3,762	$5,233	$5,186	$5,141	$4,474	$4,452	$4,115
JUN	2,573	1,862	196,501	4,339	7,753	7,948	7,392	6,551	3,267	4,138
JUL	2,513	2,091	200,468	5,464	5,934	6,608	5,720	5,180	4,395	4,895
AUG	**2,842**	**2,724**	**203,923**	**5,081**	**7,863**	**5,709**	**7,283**	**6,360**	**6,161**	**5,463**
1988 TOTAL	23,435	23,110	---	54,878	41,271	70,669	44,075	39,777	58,578	56,531
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
8 MONTH AVG.										
1989	2,036	1,584	---	4,676	6,214	6,530	5,806	4,522	4,280	4,384
1988	2,202	2,149	---	4,206	2,927	5,217	3,237	2,829	4,613	4,535
1987	1,999	1,558	---	5,781	7,163	7,740	7,903	7,726	11,243	9,435

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1989	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
MAY	1,308	1,019	289	1,347	970	377	176	244	513	375	179	245	528	395
JUN	1,406	1,027	379	1,308	940	368	168	242	552	444	177	234	506	391
JUL	1,424	1,086	338	1,281	979	302	195	267	532	430	160	232	478	411
AUG	**1,353**	**1,061**	**292**	**1,326**	**993**	**333**	**140**	**241**	**574**	**398**	**168**	**272**	**521**	**365**
1988 TOTAL	1,488	1,140	348	1,456	1,070	386	235	274	575	404	230	266	544	416
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	634	420	272	282	575	406
8 MONTH AVG. (SAAR)														
1989	1,423	1,084	339	1,339	1,007	333	195	270	558	400	188	259	509	385
1988	1,473	1,134	338	1,427	1,063	363	259	274	562	384	252	263	529	383
1987	1,666	1,246	420	1,591	1,157	434	284	319	630	434	285	302	588	416

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1989	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
MAY	3,210	2,580	9.6	653	380	7.2
JUN	3,360	2,350	8.4	653	377	7.1
JUL	3,330	2,260	8.2	758	369	6.0
AUG	**3,440**	**2,310**	**8.0**	**755**	**364**	**6.0**
1988 TOTAL	3,594	---	---	676	---	---
1987 TOTAL	3,526	---	---	671	---	---
8 MONTH AVG. (SAAR)						
1989	3,396	---	---	663	---	---
1988	3,502	---	---	673	---	---
1987	3,589	---	---	692	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

1989	Total[6]	1–Unit	2+ Units	Nonresidential
MAY	$280.9	$98.6	$20.0	$79.1
JUN	280.0	97.3	19.9	80.1
JUL	278.6	97.0	20.0	78.8
AUG	**278.0**	**95.8**	**19.9**	**80.2**
1988 TOTAL	281.8	103.5	19.3	77.9
1987 TOTAL	283.0	100.7	22.4	78.2
8 MONTH AVG. (SAAR)				
1989	281.9	100.3	20.1	80.2
1988	278.9	102.6	19.3	77.8
1987	281.1	99.4	23.0	76.9

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
1989															
MAR	$29,946	$5,990	$14,841	$8,387	$51	$2,452	$155	$1,557	$434	$142	$11,052	$63	$1,630	$7,030	$2,086
APR	27,890	5,530	13,233	8,730	85	2,480	331	1,206	366	221	8,917	122	1,340	5,216	2,104
MAY	29,269	5,302	13,270	10,179	132	2,290	286	981	640	166	13,301	186	1,476	8,404	3,094
JUN	**29,495**	**5,477**	**12,372**	**11,120**	**157**	**2,268**	**159**	**971**	**698**	**134**	**13,208**	**95**	**1,246**	**8,773**	**2,976**
1988 TOTAL	374,401	85,307	186,237	95,474	3,190	37,876	4,526	20,379	6,988	3,553	175,754	1,032	22,953	119,942	29,714
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
6 MONTH AVG.															
1989	32,414	5,347	12,809	8,856	93	2,506	271	1,251	558	177	11,069	104	1,438	7,300	2,093
1988	28,740	6,952	13,872	7,404	171	2,819	304	1,553	544	262	14,621	50	1,835	10,563	1,947
1987	42,066	11,635	18,281	11,572	309	4,279	204	1,823	843	246	12,430	335	1,992	8,177	1,834

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
1989												
MAY	149	91	15	43	93	$7,109	50	$3,167	15	$1,164	28	$2,778
JUN	157	96	15	46	107	8,155	60	3,774	14	1,072	33	3,309
JUL	153	92	14	47	94	7,411	48	3,060	13	985	33	3,366
AUG	**177**	**110**	**18**	**49**	**105**	**8,208**	**55**	**3,511**	**14**	**1,102**	**36**	**3,595**
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
8 MONTH AVG.												
1989	143	85	16	42	100	7,559	56	3,488	15	1,160	29	2,911
1988	154	85	17	52	111	8,020	58	3,430	17	1,273	36	3,317
1987	229	124	40	65	214	14,827	126	7,851	44	3,156	44	3,820

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0- to 30-day delivery.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.